

Message Text

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ACTION ARA-10

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FM AMEMBASSY PANAMA

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C O N F I D E N T I A L PANAMA 1499

LIMDIS

E.O. 11652: GDS

TAGS: PFOR PN PQ

SUBJ: U.S. PANAMANIAN RELATIONS: AMBASSADOR SAYRE'S
FAREWELL CALL ON PRESIDENT LAKAS.

REF: PANAMA'S 1498

1) SUMMARY: PRESIDENT LAKAS CONSIDERS POLITICAL
SITUATION IN PANAMA GOOD BUT HE IS NOT AS OPTIMISTIC
AS TORRIJOS (PANAMA 1498). HE FEELS US-PANAMANIAN
RELATIONS ARE EXCELLENT.

2) IN 45 MINUTE CONVERSATION DURING MY DEPARTURE CALL
PRESIDENT LAKAS WAS IN THOUGHTFUL MOOD AND MORE SPECIFIC
AND PRECISE THAN USUAL. HE WAS DELIGHTED WITH VISIT
OF DAVID ROCKEFELLER AND SAID HE HAD ASKED FOR BETTER
INTEREST RATES ON LOANS TO PANAMA.

3) LAKAS EXPRESSED CONCERN ON WAGES AND PRICES. HE
SAID BARLETTA WAS PRESSING FOR DECREE TO INCREASE WAGES.
BUT HE WAS RELUCTANT BECAUSE LABOR SHOULD BARGAIN FOR
INCREASES. I AGREED WITH HIS GENERAL PHILOSOPHY AND
SAID THAT WE FOLLOWED IT IN U.S. I OBSERVED THAT
GOVERNMENT-DECREED WAGE INCREASES DID NOT MAKE FOR
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STRONG UNIONS. BUT I SUGGESTED THAT HE KEEP IN MIND

A) THAT UNIONS IN PANAMA ARE WEAK AND NEED ENCOURAGEMENT AND B) GOP WOULD BE IN TROUBLE POLITICALLY IF IT DID NOT DO SOMETHING TO EASE VERY SERIOUS INFLATION WHICH IS HURTING LABOR. I TOLD HIM HE HAD EXCELLENT ADVISERS IN BARLETTA AND SANCHIZ AND I WAS CERTAIN THEY WERE ADVISING HIM FOR THE GOOD OF HIS COUNTRY.

4) HE ASKED IF IT WERE TRUE THAT PETROLEUM WAS RESPONSIBLE FOR ALL HIS INFLATION. I REPLIED THAT IT WAS A CONTRIBUTOR BUT HE HAD OTHER SERIOUS PROBLEMS. I SAID THAT LAGGING AGRICULTURE WAS HIS BIGGEST PROBLEM. I RECALLED THAT I HAD TOLD HIM AND TORRIJOS IN APRIL 1970 THAT THEY COULD NOT KEEP PUTTING INCREASES IN THE WORKERS' POCKETS IF THEY DID NOT PUT MORE DOMESTIC AGRICULTURAL PRODUCTS ON THE GROCERY SHELVES. HE RECALLED THAT I HAD SAID THAT AGRICULTURE HAD NOT IMPROVED MUCH AND HE WAS NOW PAYING THE PRICE--IMPORTS HAD GONE FROM \$15 MILLION TO ABOUT \$50 MILLION IN FOUR YEARS. I SAID THAT LEAKAGE FROM BANKING CENTER INTO PANAMANIAN ECONOMY WAS ANOTHER PROBLEM. PANAMA BORROWED ABOUT \$100 MILLION IN 1973 FROM BANKS IN PANAMA. HE ACKNOWLEDGED BUILDING BOOM MIGHT NOT BE ALL GOOD, BUT AS CONTRACTOR HE RESISTED IDEA CONSTRUCTION COULD DO WRONG. HE SAID THAT CONSTRUCTION HAD TO REMAIN UP BUT AGREED GOP HAD TO SHIFT NEW RESOURCES INTO MORE PRODUCTIVE ACTIVITIES. I SAID THAT HE WAS ALSO IMPORTING INFLATION FROM US, EUROPE AND JAPAN. SO I SUGGESTED PETROLEUM WAS A MAJOR CONTRIBUTION TO INFLATION BUT BY NO MEANS THE ONLY ONE.

5) HE SAID BARLETTA WAS URGING STRONGER CONTROLS OVER BUDGET AND HE ASKED ME WHAT I THOUGHT. I REPLIED THAT EVERY PRESIDENT NEEDS SOMEONE TO HELP HIM CONTROL EXPENDITURES AND TAKE THE HEAT FROM THE MINISTERS. UNLESS HE HAD SOMEONE LIKE THAT HIS MINISTERIES WOULD GET HIM INTO TROUBLE WITH OVERSPENDING AND THEN COME TO HIM TO BE BAILED OUT. I REITERATED THAT HE HAD A GOOD ECONOMIC TEAM AND HE WOULD WANT TO LISTEN TO THEM.

6) LAKAS WAS SATISFIED WITH PROGRESS ON THE TREATY NEGOTIATIONS BUT HE DID NOT GO INTO DETAILS. HE EMPHASIZED CONFIDENTIAL

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HOW IMPORTANT EXPANDING FREE ZONE AND DEVELOPING OF CONTAINER PORT AT COCO SOLO ARE TO PANAMANIAN ECONOMY.

7) LAKAS SPOKE BRIEFLY ABOUT HIS CONCERN OVER INVOLVEMENT OF GN OFFICES AND OTHER GOP OFFICIALS IN "BUSINESS" ACTIVITIES AND STRESSED STRONGLY HIS CONCERN THAT GOP OFFICIALS HAD TO SET EXAMPLE. HE WAS AFRAID SOME WERE NOT.

8) PRESIDENT SAID HOUSING LEGISLATION HAD BEEN REVISED AND APPROVED. HE HOPED THERE WOULD BE NO RECURRENCE OF THAT KIND OF EPISODE. I STRESSED NEED FOR CONSULTATION EVEN THOUGH HE KNEW HE WOULD NOT AGREE WITH MANY OF BUSINESS COMMUNITIES VIEWS. HE AGREED AND THOUGHT HE HAD BEEN DOING THAT. I AGREED BUT OBSERVED SOME OF HIS PEOPLE HAD NOT. HE LAUNCHED INTO COMPLAINTS ABOUT LEGISLATIVE COMMISSION WHOSE MEMBERS ARE SOURCE OF MUCH OF GOP'S DIFFICULTY.

9) DURING CONVERSATION HE TOOK SEVERAL TELEPHONE CALLS. HE INSTRUCTED VICE MINISTER OF GOVERNMENT TO GET ON WITH BIDDING FOR PROJECTS AND TO INCLUDE CLAUSE FOR COST ESCALATION AS A RESULT OF PRICE INCREASES. HE COMPLAINED THAT HOUSING MINISTER WAS TOO MUCH OF A BANKER AND DID NOT UNDERSTAND CONSTRUCTION INDUSTRY WOULD NOT BID AND ACCEPT RISKS OF SPIRALING PRICES.

10) PRESIDENT LAKAS IS VERY MUCH IN ACTION AS "MANAGER" OF GOVERNMENT, BUT HE HIMSELF ACCEPTS THAT HE IS NOT THE POLICY MAKER. WHEN I SAW TORRIJOS LATER TORRIJOS SPOKE HIGHLY OF LAKAS' EFFORTS WHICH SEEMED TO BELIEVE EVEN LAKAS' OWN CONCERN THAT HIS COMPLAINTS TO TORRIJOS ABOUT GN OFFICERS (PARA 7) MIGHT HAVE STRAINED RELATIONS.
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